

Message Text

LIMITED OFFICIAL USE

PAGE 01 MEXICO 00683 170113Z

44

ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 PA-01 PRS-01

EUR-12 NEA-10 /110 W

----- 012342

R 162337Z JAN 76

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2447

LIMITED OFFICIAL USE MEXICO 0683

E. O. 11652: N/A

TAGS: EFIN, ENRG MX

SUBJECT: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT.

REF: (A) STATE 6381,(B) 75 MEXICO A-467, (C) 75 MEXICO A-359.

1. SUMMARY: PARTLY BECAUSE MEXICO WAS ALMOST SELF-SUFFICIENT IN PETROLEUM AT THE TIME WORLD PRICES WERE QUADRUPLING AND PARTLY BECAUSE MEXICO HAS MADE LARGE NEW DISCOVERIES, MEXICO IS ONE OF THE NON-OPEC, G-77 COUNTRIES PARTICIPATING IN CIEC WHOSE ECONOMY SHOULD BENEFIT OVER TIME FROM HIGHER OIL PRICES. THROUGH 1975, MEXICO PROBABLY SUFFERED A SLIGHT NET LOSS FROM THE DIRECT AND INDIRECT EFFECTS OF HIGHER OIL PRICES. GAINS FROM OIL EXPORTS WERE NOT ADEQUATE TO OFFSET LOSSES TO OTHER SECTORS DUE TO WORLD RECESSION/INFLATION (AND TO DOMESTIC FACTORS). OVER NEXT SEVERAL YEARS, MEXICO SHOULD BENEFIT ON BALANCE FROM HIGHER OIL PRICES. CERTAINLY THE PUBLIC IMPRESSION IS THAT HIGHER OIL PRICES WILL BE BENEFICIAL. IMPORT DATA REQUESTED IN REF A BEING SENT IN A-007. END SUMMARY.

LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 02 MEXICO 00683 170113Z

2. THE MEXICAN ECONOMY HAS NOT PERFORMED UP TO ITS HISTORICAL TRENDS IN THE PAST SEVERAL YEARS. COMPARED WITH A POST-WAR AVERAGE REAL GROWTH RATE OF 6 TO 7 PERCENT PER YEAR, MEXICO'S REAL GDP INCREASED 5.9 PERCENT IN 1974 AND AN ESTIMATED 4 PERCENT IN 1975. ITS CURRENT ACCOUNT DEFICIT INCREASED SUBSTANTIALLY IN THE SAME PERIOD, FROM \$1.2 BILLION IN 1973 TO \$2.6 BILLION IN 1974, TO AN ESTIMATED \$3.7 BILLION IN 1975. THE SHORT-TERM PROSPECTS FOR THE MEXICAN ECONOMY ARE NOT BRIGHT. A GROWTH RATE OF ABOUT 4 PERCENT IS LIKELY IN 1976, IN PART TO REDUCE INFLATIONARY PRESSURES AND THE CURRENT ACCOUNT DEFICIT. IT MAY BE NECESSARY TO CONTINUE TO MAINTAIN A RELATIVELY LOW GROWTH RATE THROUGHOUT. THERE ARE NO GOOD CURRENT STATISTICS ON EMPLOYMENT, BUT IT IS UNLIKELY THAT ALL THE NEW POTENTIAL ENTRANTS INTO THE LABOR FORCE HAVE BEEN ABLE TO FIND JOBS.

3. IT IS DIFFICULT TO DIVIDE THE BLAME FOR MEXICO'S ECONOMIC PROBLEMS BETWEEN THE REVERBERATIONS OF HIGHER OIL PRICES ON THE WORLD ECONOMY AND DOMESTIC FACTORS. HIGHER OIL PRICES PER SE HAVE HAD A LIMITED IMPACT ON DOMESTIC ECONOMIC ACTIVITIES.

4. MEXICO HAS MAINTAINED PRICES FOR CERTAIN PETROLEUM PRODUCTS SUCH AS DIESEL FUEL (USED FOR PUBLIC TRANSPORT) AND FUEL OIL AT PRE-1973 LEVELS AND HAS DEPENDED LARGELY ON INCREASES IN GASOLINE PRICES AND CRUDE OIL EXPORTS TO INCREASE THE SELF-FINANCING CAPACITY OF THE GOVERNMENT. IN 1974, CRUDE OIL EXPORTS WERE \$92.3 MILLION (34.9 PERCENT OF GDP), DIESEL FUEL EXPORTS WERE \$9.9 MILLION (0.9 PERCENT OF GDP), AND PETROLEUM PRODUCTS EXPORTS WERE \$1.2 MILLION (0.1 PERCENT OF GDP). AUTOMOBILE OWNERS CONSTITUTE A RELATIVELY SMALL SHARE OF THE POPULATION AND AS MEMBERS OF MIDDLE-AND UPPER-INCOME GROUPS ARE CONSIDERED MORE ABLE TO ABSORB THE HIGHER COST OF GASOLINE.

5. THE CONTRIBUTION OF INCREASED PETROLEUM OUTPUT TO THE ECONOMY IS ALSO SOMEWHAT LIMITED. THE PETROLEUM SECTOR ACCOUNTED FOR ONLY 3.1 PERCENT OF GDP AT CURRENT PRICES IN 1974, AND FOR 11 PERCENT OF THE INCREASE IN GDP FROM 1973 TO 1974. IT IS THE FASTEST GROWING SECTOR OF THE MEXICAN ECONOMY.

6. HIGHER OIL PRICES WERE A FACTOR IN THE INCREASE OF THE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 03 MEXICO 00683 170113Z

CURRENT ACCOUNT DEFICIT FROM 1973 TO 1974, BUT OIL MADE A POSITIVE CONTRIBUTION IN 1975 WHEN MEXICO BECAME A NET EXPORTER.

7. THE INDIRECT COSTS OF HIGHER OIL PRICES MAY HAVE HAD A GREATER IMPACT. MEXICO'S EXPORTS IN 1975 WERE ROUGHLY THE SAME IN VALUE TERMS AS IN 1974, INSPITE OF AN ESTIMATED \$300 MILLION INCREASE IN OIL EXPORTS. THIS LEVELING OFF IS

DUE IN PART TO THE WORLD RECESSION, BUT IS ALSO REFLECTS GOM POLICIES AND OTHER DOMESTIC FACTORS. FOR INSTANCE, PRIVATE INVESTMENT HAS BEEN STAGNANT SINCE THE EARLY SEVENTIES. LIKEWISE, A CONSIDERABLE PORTION OF MEXICO'S INFLATION SINCE 1970 IS DUE TO INFLATIONARY FINANCING OF THE PUUBLIC SECTOR DEFICIT. THIS IS PARTICULARLY TRUE FRO 1975. INFLATION AND THE STAGNATION OF PRIVATE INVESTMENT HAS AFFECTED MEXICO'S ABILITY TO EXPORT, AS HAS THE STAGNATION OF AGRICULTURAL PRODUCTION. THESE FACTORS MAY BE AS IMPORTANT AS THE WORLD RECESSION IN HOLDING MEXICO'S GROWTH RATE TO AN ESTIMATED 4 PERCENT OR LESS IN 1975.

7. OVER THE COURSE OF THE NEXT TWO YEARS, MEXICO'S OIL RESOURCES SHOULD BEGIN TO BE OF NET BENEFIT TO THE ECONOMY BY GENERATING SAVINGS, FOREIGN EXCHANGE EARNINGS, AND DOMESTIC ECONOMIC GROWTH. WHILE MEXICO MAY HAVE SUFFERED SOMEWHAT IN THE SHORT-TERM FROM THE DIRECT AND INDIRECT EFFECTS OF THE HIGHER OIL PRICES, AND MAY HAVE BEEN BETTER OFF NOW IF PRICES HAD NOT BEEN INCREASED IT IS WIDELY BELIEVED THAT HENCEFORTH MEXICO WILL BE A BENEFICIARY OF HIGHER OIL PRICES.

8. EXCEPT FOR THE TWOMMILLION OR SO AUTOMOBILE OWNERS, MEXICANS PERCEIVED LITTLE DAMAGE TO THEIR OWN ECONOMIC WELL-BEING AND THE NATIONAL ECONOMY FROM THE HIGHER OIL PRICES. PUBLIC OPINION HAS ALSO BEEN INFLUENCED BY THE THIRD WORLD RHETORIC OF THIS ADMINISTRATION AND THE OFT- STATED NEED TO BETTER DEVELOPING COUNTRIES' TERMS OF TRADE. MEXICAN OFFICIALS RECOGNIZE THE IMPACT HIGHER OIL PRICES HAD ON THE 1974 BALANCE OF PAYMENTS. THEY ALSO RECOGNIZE THE IMPACT OF THE U.S. RECESSION IN 1975. THEY WOULD PROBABLY ATTRIBUTE THE WORLD RECESSION AND INFLATION LESS TO HIGHER OIL PRICES THAN WOULD USG OFFICIALS. THEY BELIEVE LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

PAGE 04 MEXICO 00683 170113Z

HIGHER OIL PRICES WILL NOT BEGIN TO BE OF NET BENEFIT TO THE ECONOMY.
JOVA

LIMITED OFFICIAL USE

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: PETROLEUM, ECONOMIC CONDITIONS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 16 JAN 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: buchant0
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976MEXICO00683
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760018-0999
From: MEXICO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760150/aaaabser.tel
Line Count: 157
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 STATE 6381, 76 MEXICO A-467, 76 MEXICO A-359
Review Action: RELEASED, APPROVED
Review Authority: buchant0
Review Comment: n/a
Review Content Flags:
Review Date: 20 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 JUL 2004 by BoyleJA>; APPROVED <28 OCT 2004 by buchant0>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: CIEC: IMPACT OF HIGHER OIL PRICES ON ECONOMIC DEVELOPMENT.
TAGS: EFIN, ENRG, MX, CIEC
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006